

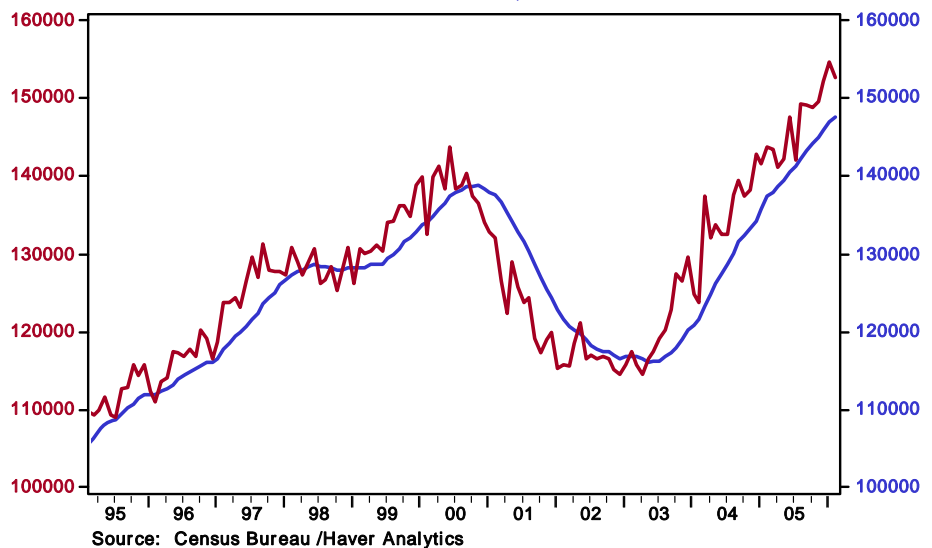
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FEBRUARY DURABLE GOODS

- New orders for durable goods increased by a greater-than-expected 2.6% in February. Durable goods orders are up 8.1% in the past year.
- Following large declines in January, transportation and defense capital goods orders rose 13.4%, and 104.1% respectively in February. Excluding transportation, new orders fell 1.3% last month. After excluding defense, however, orders rose 0.3%.
- Shipments of durable goods increased by a slight 0.2% in February. Shipments of non-defense capital goods, excluding aircraft, a harbinger of capital investment, fell 1.1%, but are still up 7% from a year ago.

Durable Goods New Orders: Excluding Transportation
 Millions of \$

12-Month Moving Average
 Millions of \$



Source: Census Bureau /Haver Analytics

Implications: An unexpected 52.5% jump in commercial aircraft orders during February lifted overall new orders for durable goods by 2.6%. Excluding transportation, new orders fell by 1.3%. Nonetheless, new orders, excluding transportation, are up 9.2% at an annual rate in the past three months, 6.4% in the past year, and on a 12-month moving average basis are at a record high (see chart above). Durable goods data are highly volatile, and movements from month to month should be taken with a grain of salt. However, capital goods shipments are a good proxy for the business fixed investment component of GDP. And here the news is solid. Shipments of non-defense, non-aircraft capital goods in the first two months of the first quarter are an annualized 8.4% above the fourth quarter average. As a result, we are even more confident in our first quarter real GDP forecast of 4.5% to 5.0% annualized growth. The economy remains strong, corporate balance sheets are flush with cash and the tax cut is still boosting incentives for risk taking. While there always seems to be a piece of the durable goods report that can be taken in a negative light, the underlying trends point to continued robust economic growth.

Durable Goods Orders <i>All data seasonally adjusted</i>	Feb-06	Jan-06	Dec-05	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
Durable Goods Orders	2.6%	-8.9%	2.5%	-15.7%	4.0%	8.1%
Ex Defense	0.3%	-7.7%	2.0%	-20.6%	1.1%	6.7%
Ex Transportation	-1.3%	1.6%	1.9%	9.2%	4.9%	6.4%
Primary Metals	-2.5%	1.2%	-4.1%	-19.9%	-0.9%	6.0%
Industrial Machinery	-6.3%	-3.5%	9.2%	-4.9%	8.0%	4.4%
Computers and Electronic Products	4.2%	-0.6%	0.3%	16.3%	-5.2%	2.9%
Transportation Equipment	13.4%	-29.2%	3.6%	-52.0%	1.9%	12.4%
Shipments	0.2%	-1.8%	4.0%	9.8%	8.8%	7.7%
Unfilled Orders	0.9%	-0.2%	2.6%	13.9%	18.7%	17.0%
Capital Goods Orders	7.8%	-20.7%	1.9%	-42.5%	3.9%	11.7%
Defense	104.1%	-32.6%	1.4%	278.7%	86.2%	33.6%
Nondefense Capital Goods	1.6%	-19.8%	1.9%	-52.5%	-2.5%	9.4%

Source: Bureau of the Census

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